

FTC Consumer Alert

Federal Trade Commission ■ Bureau of Consumer Protection ■ Office of Consumer and Business Education

Home Equity Loans: The Three-Day Cancellation Rule

If you're considering applying for a personal loan and using your home to guarantee repayment, you should know that a federal credit law gives you three days to reconsider a signed credit agreement and cancel the deal without penalty. Your "right to rescind" or "right to cancel" is guaranteed by the Truth In Lending Act. You can rescind for any reason but only if you are using your principal residence — whether it is a condominium, mobile home, or house boat — as collateral, not a vacation or second home.

Under the right to rescind, you have until midnight of the third business day to cancel the credit transaction. Day one begins after all three of the following occur:

- you sign the credit contract;
- you receive a Truth in Lending disclosure form containing certain key information about the credit contract, including the annual percentage rate; finance charge; amount financed; and payment schedule; and
- you receive two copies of a Truth in Lending notice explaining your right to rescind.

For rescission purposes, business days include Saturdays but not Sundays or legal public holidays. For example, if the events listed above take place on a Friday, you have until midnight on the next Tuesday to rescind.

During this waiting period, activity related to the contract cannot take place. The creditor may not deliver the money for the loan. If you're dealing with a home improvement loan, the contractor may not deliver any materials or start work.

If you decide to rescind, you must notify the creditor in writing. You may not rescind by telephone or in a face-to-face conversation with the creditor. Your written notice must be mailed, filed for telegraphic transmission, or delivered if by other written means, before midnight of the third business day.

If you cancel the contract, the security interest in your home is also cancelled, and you are not liable for any amount, including the finance charge. The creditor has 20 days to return all money or property you paid as part of the transaction and release any security interest in your home. If you received money or property from the creditor, you may retain it until the creditor shows that your home is no longer being used as collateral and returns any money you have paid. Then, you must offer to return the creditor's money or property. If the creditor does not claim the money or property within 20 days, you may keep it.

If you have a bona fide personal financial emergency — such as damage to your home from a storm or other natural disaster — the law allows you to waive your right to rescind and eliminate the three-day period. To waive your right, you must give the creditor your own written statement describing the emergency and stating that you are waiving your right to rescind. The statement must be dated and signed by you and anyone else who shares in ownership of the home. But remember: if you waive your right to rescind, you must go ahead with the transaction.

The right to rescind does not apply in all situations when you are using your home for collateral. Among the exceptions are:

- when you apply for a loan to buy or build your principal residence;
- when you refinance your loan with the same creditor who holds your loan and you don't borrow any additional funds; or
- when a state agency is the creditor for a loan.

In these situations, you may have other cancellation rights under state or local law.

For more information about credit issues, contact the Consumer Response Center, Federal Trade Commission, 600 Pennsylvania Avenue, NW, Washington, DC 20580; toll-free 1-877-FTC-HELP (382-4357); TDD: 202-326-2502. Or visit the FTC at www.ftc.gov — click on Consumer Protection and Publications.

Federal Trade Commission	Toll-free 1-877-FTC-HELP
www.ftc.gov	For the Consumer